

**McKinleyville Community  
Services District  
Basic Financial Statements  
June 30, 2008**



STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, Governor

GOVERNOR'S OFFICE OF EMERGENCY SERVICES  
LOCAL ASSISTANCE MONITORING BRANCH  
3650 SCHRIEVER AVENUE  
MATHER, CALIFORNIA 95655  
PHONE: (916) 845-8120 FAX: (916) 845-8380



## REVIEW / SIGNATURE ROUTING FORM

*Mc Kinleyville Com m. Sves Dist. PS 6/30/08*

DATE	FROM	TO	ACTION / COMMENTS (Approved, Forward, Return, etc.)
7/20/09	B	CL	Reviewed + entered in DB, B Find to Catherine.
			EMG - PS, Reviewed
			has 1 finding re:
			Prop 4 - <del>statute</del> <i>PS</i>

# Audit Review

## Search and Filter:

Status: All  
Employee: All  
Subgrantee: \*  
Audit #: 4943

Audit R/Subgrantee Name End Date of Status  
4943 McKinleyville Commur 6/30/2008 150

## SUBGRANTEE:

McKinleyville Community Services District



AUDIT REVIEW NUMBER: 04943

Reviewed By: Smart  
Review Status: Suspense (0)  
Audit/SCO Info: GS Grant #s: A-133 Audits GS/FS Audits Opinion/Findings Summary of Findings CAP Field F/U Events Invoices

## Corrective Action Plan:

Is a CAP included with the report?: Yes  
Are the actions outlined in the CAP sufficient to correct the findings?: Yes

☐ OES follow-up action is required  
Follow-up action required / other notes:

No b/c required

## Check all that apply...

☐ Request CAP  
Date CAP Requested:  
Date CAP Due:  
Date CAP Received:

☐ Second follow-up on CAP required

Date 2nd follow-up CAP request sent:  
Date 2nd follow-up CAP response due:  
Date 2nd follow-up CAP received:  
Date CAP Approval letter sent:

Review Status:  
Date Audit Review Closed:  
Suspense (0)

Display Follow-Up Items

Exit

CORRECTIVE ACTION PLAN SAR SECTION: Was there a management response or corrective action plan included in the report?



**CALIFORNIA EMERGENCY MANAGEMENT AGENCY**  
**LOCAL ASSISTANCE MONITORING BRANCH**  
 3650 SCHRIEVER AVENUE  
 MATHER, CALIFORNIA 95655  
 PHONE: (916) 845-8120 FAX: (916) 845-8380

EMG



July 9, 2009

Audit #  
04943

RECEIVED  
JUL 10 2009  
McK. C.S.D.

Mr. Thomas A. Marking  
 General Manager  
 McKinleyville Community Services District  
 1656 Sutter Road  
 McKinleyville, CA 95519

SUBJECT: SINGLE AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008  
 FIPS #023-91036

Dear Mr. Marking:

Since the California Emergency Management Agency (CalEMA) (formerly the Governor's Office of Emergency Services (OES)) is subject to the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, the CalEMA is required to monitor its subrecipients of federal awards to determine whether they have met the audit requirements of the Circular. The Circular specifically requires non-federal entities that expend \$500,000 or more in a year in federal awards to have either an annual single or program-specific audit, and that the audit report be submitted within nine months after the end of the audit period.

To date, an audit report for your organization for the year ended June 30, 2008 has not been received by the CalEMA. Accordingly, the CalEMA is requesting that you check one of the following options listed below, and return a signed copy of this letter to the above address within 30 days of its date, along with all appropriate documentation regarding your organization's compliance with the audit requirement. If findings were noted in your audit report, please include a summary of your management responses and corrective actions taken. In addition, please submit a copy of any separate letter to management mentioned in the audit report.

<input checked="" type="checkbox"/>	We have completed our A-133 audit for fiscal year(s) ended <u>June 30, 2008</u> . A copy of the audit report(s) is enclosed.
<input type="checkbox"/>	We expect our A-133 audit for fiscal year(s) ended _____ will be completed by _____. A copy of our audit report along with our management responses and corrective actions taken related to any findings will be forwarded to the CalEMA within 30 days of receipt of the report.
<input type="checkbox"/>	We are not subject to A-133 audit because: _____ We are a for-profit organization _____ We expend less than \$500,000 in federal awards annually _____ We are a component entity of the following organization and included in its A-133 audit: _____ Other (please explain) _____ _____



**Terry E. Krieg, CPA**  
Certified Public Accountant

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**Independent Auditor's Report**

Board of Directors  
McKinleyville Community Services District  
McKinleyville, California

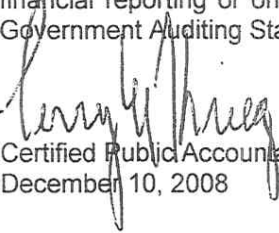
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McKinleyville Community Services District, California, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the McKinleyville Community Services District management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McKinleyville Community Services District, California, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 5 and pages 31 through 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, I have also issued my report dated December 10, 2008 on my consideration of the McKinleyville Community Services District's, California internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

  
Certified Public Accountant  
December 10, 2008

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**Statement of Net Assets**  
**June 30, 2008**

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,001,618	\$ 4,754,002	\$ 5,755,620
Net receivables	14,676	164,102	178,778
Prepayments	3,456	2,926	6,382
Inventory	-	112,248	112,248
Internal balances	(14)	14	-
Total current assets	<u>1,019,736</u>	<u>5,033,292</u>	<u>6,053,028</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	757,129	757,129
Debt issuance costs	-	54,042	54,042
Net capital assets	<u>3,501,992</u>	<u>17,711,897</u>	<u>21,213,889</u>
Total noncurrent assets	<u>3,501,992</u>	<u>18,523,068</u>	<u>22,025,060</u>
Total assets	<u><u>\$ 4,521,728</u></u>	<u><u>\$ 23,556,360</u></u>	<u><u>\$ 28,078,088</u></u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 11,558	\$ 62,405	\$ 73,963
Accrued liabilities	11,250	16,191	27,441
Deposits	7,100	12,773	19,873
Compensated absences	8,525	51,323	59,848
Interest payable	11,492	23,152	34,644
Capital leases, bonds and loans due within one year	<u>227,871</u>	<u>230,509</u>	<u>458,380</u>
Total current liabilities	<u>277,796</u>	<u>396,353</u>	<u>674,149</u>
Noncurrent liabilities:			
Davis Grunsky Act Loan	-	2,630,923	2,630,923
State revolving loans	-	507,814	507,814
Bonds payable	-	905,000	905,000
Bank loan	-	377,539	377,539
Capital lease obligations	560,189	-	560,189
Compensated absences payable	<u>10,488</u>	<u>81,199</u>	<u>91,687</u>
Total noncurrent liabilities	<u>570,677</u>	<u>4,502,475</u>	<u>5,073,152</u>
Total liabilities	<u>848,473</u>	<u>4,898,828</u>	<u>5,747,301</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,713,932	13,114,114	15,828,046
Restricted for:			
Debt service	-	757,129	757,129
Unrestricted	<u>959,323</u>	<u>4,786,289</u>	<u>5,745,612</u>
Total net assets	<u>3,673,255</u>	<u>18,657,532</u>	<u>22,330,787</u>
Total liabilities and net assets	<u><u>\$ 4,521,728</u></u>	<u><u>\$ 23,556,360</u></u>	<u><u>\$ 28,078,088</u></u>

See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICE DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2008**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	District Government			
					Governmental Activities	Business-type Activities	Total	
District government:								
Governmental activities:								
Parks and recreation services	\$ 912,228	\$ 444,876	-	96,982	(370,370)	-	(370,370)	
Street lighting	61,027	75,867	-	-	14,840	-	14,840	
Interest	28,745	-	-	-	(28,745)	-	(28,745)	
Total governmental activities	1,002,000	520,743	-	96,982	(384,275)	-	(384,275)	
Business-Type Activities:								
Water	1,512,628	1,435,283	-	41,002	-	(36,343)	(36,343)	
Wastewater	1,435,638	1,332,602	-	184,539	-	81,503	81,503	
Total business-type activities	2,948,266	2,767,885	-	225,541	-	45,160	45,160	
Total District government	\$ 3,950,266	\$ 3,288,628	\$ 21,708	\$ 322,523	(384,275)	45,160	(339,115)	
<b>General revenues and transfers</b>								
Property taxes		\$ 508,445			\$ 508,445	\$ -	\$ 508,445	
Special assessments		194,044			194,044	-	194,044	
Unrestricted investment earnings		35,637			35,637	253,321	288,968	
Other general revenues		3,339			3,339	194	3,533	
Transfers		46,855			46,855	(46,855)	-	
Total general revenues		788,320			788,320	206,660	994,980	
<b>Change in net assets</b>								
		404,045			404,045	251,820	655,865	
Net assets, beginning		3,269,210			3,269,210	18,405,712	21,674,922	
Net assets, ending		\$ 3,673,255			\$ 3,673,255	\$ 18,657,532	\$ 22,330,787	

See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**Statements of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2008**

	General Fund (Parks and Recreation)	Street Lighting Fund	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 508,445	\$ -	\$ 508,445
Assessments	194,044	-	194,044
Intergovernmental	67,982	-	67,982
Interest	34,943	694	35,637
Charges for services	444,876	75,867	520,743
Miscellaneous	3,339	-	3,339
	<hr/>	<hr/>	<hr/>
Total revenues	1,253,629	76,561	1,330,190
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES</b>			
Current:			
Recreation programs, parks, open space, facilities and other cultural activities	742,483	-	742,483
Street lighting	-	61,027	61,027
Debt service:			
Principal	245,032	-	245,032
Interest	31,870	-	31,870
Capital outlay	54,115	-	54,115
	<hr/>	<hr/>	<hr/>
Total expenditures	1,073,500	61,027	1,134,527
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	180,129	15,534	195,663
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	65,910	-	65,910
Transfers out	-	(19,055)	(19,055)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	65,910	(19,055)	46,855
	<hr/>	<hr/>	<hr/>
Net change in fund balances	246,039	(3,521)	242,518
	<hr/>	<hr/>	<hr/>
Fund balances, July 1	708,022	30,763	738,785
	<hr/>	<hr/>	<hr/>
Fund balances, June 30	\$ 954,061	\$ 27,242	\$ 981,303
	<hr/>	<hr/>	<hr/>

See accompanying notes to the basic financial statements



**MCKINLEYVILLE COMMUNITY SERVICE DISTRICT**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ 242,518
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$43,183) exceed depreciation (\$174,737) in the current period.	(131,554)
--	-----------

Losses on the disposals of capital assets are not a use of current financial resources and are therefore not reported in the funds	(854)
--	-------

Capital assets contributed by developers do not provide current financial resources and are not reported in the funds	29,000
---	--------

Changes in accrued interest payable are not a use or source of current financial resources and are therefore not reported in the funds	3,125
--	-------

Changes in compensated absences payable are not a source or use of current financial uses and are therefore not reported in the funds	(4,705)
---	---------

Additional contributed assets recorded as of the beginning of the fiscal year	17,607
---	--------

Other items reported in the statement of activities that result in the use of current financial resources	3,876
---	-------

Repayment of long-term obligations such as capital leases is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets; and is therefore not reported as an expense in the statement of activities	245,032
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Net differences	161,527
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Change in Net Assets of Governmental Activities	\$ 404,045
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See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2008**

	Enterprise Funds		
	Water	Wastewater	Totals
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,827,278	\$ 2,926,724	\$ 4,754,002
Receivables(net)	85,771	78,331	164,102
Inventory	80,901	31,347	112,248
Loan proceeds receivable	-	-	-
Prepayments	1,481	1,445	2,926
Internal balances	14	-	14
Total current assets	1,995,445	3,037,847	5,033,292
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	594,242	162,887	757,129
Debt issuance costs	-	54,042	54,042
Total other noncurrent assets	594,242	216,929	811,171
Capital assets:			
Land and land rights	344,798	3,232,589	3,577,387
Buildings and shops	149,197	137,308	286,505
Water treatment plant	2,623,688	-	2,623,688
Water Lines and pumping stations	6,528,635	-	6,528,635
Wastewater lines and collection system	-	9,719,023	9,719,023
Wastewater pumping stations and facilities	-	6,730,663	6,730,663
Vehicles	242,213	443,886	686,099
Equipment and other	437,336	523,347	960,683
Construction in progress	18,588	66,716	85,304
Less accumulated depreciation	(5,012,486)	(8,473,604)	(13,486,090)
Net capital assets	5,331,969	12,379,928	17,711,897
Total noncurrent assets	5,926,211	12,596,857	18,523,068
Total assets	\$ 7,921,656	\$ 15,634,704	\$ 23,556,360
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 42,193	\$ 20,212	\$ 62,405
Accrued liabilities	8,095	8,096	16,191
Deposits and refunds	12,773	-	12,773
Interest payable	-	23,152	23,152
Compensated absences	24,723	26,600	51,323
Bonds and loans			
due within one year	84,051	146,458	230,509
Total current liabilities	171,835	224,518	396,353
Noncurrent liabilities:			
Davis Grunsky Act Loan	2,630,923	-	2,630,923
State Revolving Fund Loan	-	286,441	286,441
State Revolving Fund Loan	-	221,373	221,373
FMHA bonds payable	-	905,000	905,000
Bank Loan	-	377,539	377,539
Compensated absences	39,285	41,914	81,199
Total noncurrent liabilities	2,670,208	1,832,267	4,502,475
Total Liabilities	2,842,043	2,056,785	4,898,828
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,616,955	10,497,159	13,114,114
Restricted	594,242	162,887	757,129
Unrestricted	1,868,416	2,917,873	4,786,289
Total net assets	\$ 5,079,613	\$ 13,577,919	\$ 18,657,532

See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2008**

	Enterprise Funds		
	Water	Wastewater	Totals
<b>Operating Revenues:</b>			
Sale of water	\$ 1,337,042	\$ -	\$ 1,337,042
Services fees	-	1,216,130	1,216,130
Other operating revenues	98,241	116,472	214,713
Total operating revenues	1,435,283	1,332,602	2,767,885
<b>Operating Expenses:</b>			
Personnel services	594,924	628,773	1,223,697
Purchased water	356,842	-	356,842
Utilities	43,873	84,108	127,981
Insurance	23,845	23,835	47,680
Other supplies and expenses	214,287	212,215	426,502
Depreciation and amortization	220,727	400,055	620,782
Total operating expenses	1,454,498	1,348,986	2,803,484
Operating income (loss)	(19,215)	(16,384)	(35,599)
<b>Non-Operating Revenues (Expenses)</b>			
Intergovernmental grants	524	30,937	31,461
Gain (loss) on disposal capital assets	99	95	194
Other expense	-	(6,757)	(6,757)
Interest expense	(58,130)	(79,895)	(138,025)
Interest and investment revenue	114,973	138,348	253,321
Net non-operating revenues (expenses)	57,466	82,728	140,194
Income(loss)before capital contributions and transfers	38,251	66,344	104,595
<b>Capital Contributions and Transfers</b>			
Transfers out	-	(46,855)	(46,855)
Capital contributions	40,478	153,602	194,080
Total capital contributions and transfers	40,478	106,747	147,225
Change in net assets	78,729	173,091	251,820
Total net assets, July 1	5,000,884	13,404,828	18,405,712
Total net assets, June 30	\$ 5,079,613	\$ 13,577,919	\$ 18,657,532

See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICE DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2008**

	Enterprise Funds		
	Water	Wastewater	Totals
<b>CASH FLOWS FROM</b>			
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$1,344,462	\$ 1,220,192	\$ 2,564,654
Payments to suppliers	(626,324)	(310,785)	(937,109)
Other operating receipts	98,241	116,472	214,713
Payments to employees	(592,593)	(621,061)	(1,213,654)
Net cash provided by (used for)			
operating activities	223,786	404,818	628,604
<b>CASH FLOWS FROM</b>			
<b>NONCAPITAL FINANCING</b>			
<b>ACTIVITIES</b>			
Transfers out	-	(46,855)	(46,855)
Advances to other funds	(14)	-	(14)
Net cash provided by(used for)			
noncapital financing activities	(14)	(46,855)	(46,869)
<b>CASH FLOWS FROM CAPITAL</b>			
<b>AND RELATED FINANCING</b>			
<b>ACTIVITIES</b>			
Principal paid on long-term debt	(82,417)	(134,052)	(216,469)
Interest paid on long-term debt	(58,130)	(79,259)	(137,389)
Capital grants	524	30,937	31,461
Capital contributions	11,406	106,202	117,608
Purchases of capital assets	(56,305)	(115,982)	(172,287)
Net cash provided by(used for)			
capital and related financing	(184,922)	(192,154)	(377,076)
<b>CASH FLOWS FROM</b>			
<b>INVESTING ACTIVITIES</b>			
Interest receipts	114,355	135,968	250,323
Net cash provided by			
investing activities	114,355	135,968	250,323
Net change in cash and cash			
equivalents	153,205	301,777	454,982
Balances-beginning of the year	2,268,315	2,787,834	5,056,149
Balances-end of the year	<u>\$2,421,520</u>	<u>\$ 3,089,611</u>	<u>\$ 5,511,131</u>

See accompanying notes to the basic financial statements

**MCKINLEYVILLE COMMUNITY SERVICE DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2008**

	Enterprise Funds		
	Water	Wastewater	Totals
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (19,215)	\$ (16,384)	\$ (35,599)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	220,727	400,055	620,782
Change in assets and liabilities:			
Receivables, net	8,247	4,063	12,310
Inventory	1,520	(1,701)	(181)
Prepayments	(1,096)	(1,058)	(2,154)
Accounts payable	4,004	4,036	8,040
Other liabilities	9,599	15,807	25,406
Net cash provided by (used for) operating activities	<u>\$ 223,786</u>	<u>\$ 404,818</u>	<u>\$ 628,604</u>

**Noncash capital financing activities:**

During the 2008 fiscal year, the District's water and wastewater enterprises reported capital assets contributed by developers of \$29,072 and \$47,400, respectively.

See accompanying notes to the basic financial statements

# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The District is a Community Services District governed by an elected five member Board of Directors. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

There are no legally separate component units or entities for which the District is financially accountable.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements  
June 30, 2008

**Note 1. Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Lighting Fund, a nonmajor special revenue fund*, is maintained to account for the fees collected and used to fund street lighting services.

The District reports the following major proprietary funds:

The *water fund* accounts for the operations of the District's water treatment and distribution system. The *wastewater fund* accounts for the operation of the District's wastewater collection activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and wastewater function and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Assets, Liabilities, and Net Assets or Equity**

##### **1. Deposits and Investments**

The District is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, banker's acceptances, repurchase agreements, and time deposits and savings and demand accounts and the Humboldt County Treasurer's Investment Fund.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value. The State Treasurer's Investment Pool and the Humboldt County Treasurer's Investment Pool operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

##### **2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Mendocino collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District.

##### **3. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.



# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities, and Net Assets or Equity (Continued)

##### 4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the District is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003 at the date these new financial reporting standards were implemented; and the District has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50
Water system	30 to 50
Other infrastructure	10 to 50
Machinery and equipment	5 – 10
Improvements	10 to 20

##### 5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for a portion of unpaid accumulated sick leave since the District does have a policy to pay certain amounts when employees separate from service with the District. All vacation pay and applicable sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

##### 6. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

##### 7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### 8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

### 2. Reconciliation of Government-wide and Fund Financial Statements

#### A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 3,501,992 difference are as follows:

Capital assets	\$ 5,220,161
Less: Accumulated depreciation	<u>(1,718,169)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 3,501,992</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$810,040 difference are as follows:

Long-Term Debt Obligations	
Capital lease obligations	\$ 788,060
Accrued interest payable	11,492
Compensated absences	<u>10,488</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ ( 810,040 )</u>

#### B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 161,527 difference and other significant components of the difference are as follows:

Capital outlay	\$ 43,183
Depreciation expense	(174,737)
Other items	48,049
Repayment of long-term debt principal	<u>245,032</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 161,527</u>

# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### 2. Stewardship, Compliance, and Accountability

#### A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The District Manager may make transfers of appropriations within a department. Transfers between departments and other changes require Board of Director's approval. The legal level of control is the department and fund level. The District made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

### 4. Detailed Notes on All Funds

#### A. Deposits and Investments

Deposits and investments at June 30, 2008 consisted of the following:

Demand deposits and cash on hand	\$ 382,771
Investments with Humboldt County Treasurer	5,844,954
Investments with Local Agency Investment Fund	122,137
Investments with US Bank	<u>162,887</u>
Total deposits and investments	<u>\$ 6,512,749</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2008, \$295,270 of the District's bank balances of \$ 395,270 was exposed to credit risk.

Investments - At June 30, 2008, the District had the following investments.

<i>Investment</i>	<i>Maturities</i>	<i>Fair Value</i>
<i>Humboldt County Treasurer's Investment Fund</i>	<i>Average 894 days</i>	<i>\$ 5,844,954</i>
<i>U.S.Bank Money Market Funds</i>	<i>Unknown</i>	<i>162,887</i>
<i>Local Agency Investment Fund (LAIF)</i>	<i>Average 212 days</i>	<i>122,137</i>
<i>Totals</i>		<i><u>\$ 6,129,978</u></i>

*Interest Rate Risk -* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to investments in securities having maturities less than five years at the time of purchase.

*Credit Risk -* State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the District's policy to comply with State law as regards securities ratings. The Local Agency Investment Fund (LAIF) and the Humboldt County Treasurer's Investment Fund are unrated. The U.S.Bank money market funds were rated as AAA at year end.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2008**

**4. Detailed Notes on All Funds (Continued)**

**A. Deposits and Investments(Continued)**

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's only investments are in the LAIF, the Humboldt County Treasurer's Investment Fund and in money Markey funds; and these investments are not evidenced by specific securities in the name of the District and are therefore not subject to custodial credit risk.

**B. Receivables**

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Street Lighting Fund	Total Governmental	Water	Wastewater	Total Business- Type
Interest	\$ 9,355	\$ -	\$ 9,355	\$ 25,295	\$ 29,105	\$ 54,401
Accounts	2,108	3,213	5,321	60,475	49,226	109,701
Totals	<u>\$ 11,463</u>	<u>\$ 3,213</u>	<u>\$ 14,676</u>	<u>\$ 85,771</u>	<u>\$ 78,331</u>	<u>\$ 164,102</u>

**C. Interfund Receivables and Payables**

1. The composition of interfund balances was:

Receivable Fund	Payable Fund	Amount
Water enterprise	General fund for services	\$ 14
	Total	<u>\$ 14</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2008**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

Capital asset activity relating to governmental activities for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,189,858	\$ 25,000	\$ -	\$ 1,214,858
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,189,858</u>	<u>25,000</u>	<u>-</u>	<u>1,214,858</u>
Capital assets, being depreciated:				
Buildings	2,221,291	-	-	2,221,291
Street lighting	327,520	4,000	-	331,520
Tools and equipment	263,421	-	27,876	235,545
Vehicles	26,823	17,248	-	44,071
Improvements	<u>1,127,456</u>	<u>45,420</u>	<u>-</u>	<u>1,172,876</u>
Total capital assets being depreciated	<u>3,966,511</u>	<u>66,668</u>	<u>27,876</u>	<u>4,005,303</u>
Less accumulated depreciation for:				
Buildings	(845,282)	(76,120)	-	(921,402)
Street lighting	(87,456)	(10,917)	-	(98,373)
Tools and equipment	(139,989)	(21,097)	-	(161,086)
Vehicles	(36,438)	(2,544)	-	(38,982)
Improvements	<u>(434,268)</u>	<u>(64,058)</u>	<u>-</u>	<u>(498,326)</u>
Total accumulated depreciation	<u>(1,543,433)</u>	<u>(174,736)</u>	<u>-</u>	<u>(1,718,169)</u>
Total capital assets, being depreciated, net	<u>2,423,078</u>	<u>(108,068)</u>	<u>-</u>	<u>2,287,134</u>
Governmental activities capital assets, net	<u>\$ 3,612,936</u>	<u>\$ (83,068)</u>	<u>\$ 27,876</u>	<u>\$ 3,501,992</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2008**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

Capital asset activity relating to business-type activities for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land and rights of way	\$ 3,577,387	\$ -	\$ -	\$ 3,577,387
Construction in progress	<u>54,738</u>	<u>30,566</u>	<u>-</u>	<u>85,304</u>
Total capital assets, not being depreciated	<u>3,632,125</u>	<u>30,566</u>	<u>-</u>	<u>3,662,691</u>
Capital assets, being depreciated:				
Buildings and shops	277,339	9,166	-	286,505
Water treatment plant	2,623,688	-	-	2,623,688
Water lines and pumping stations	6,492,025	36,610	-	6,528,635
Wastewater lines and collection system	9,666,373	52,650	-	9,719,023
Wastewater pumping stations and facilities	6,730,663	-	-	6,730,663
Vehicles	704,066	28,283	46,250	686,099
Equipment and other capital items	<u>886,989</u>	<u>92,268</u>	<u>18,574</u>	<u>960,683</u>
Total capital assets being depreciated	<u>27,381,143</u>	<u>218,977</u>	<u>64,824</u>	<u>27,535,296</u>
Less accumulated depreciation for:				
Buildings and shops	(115,025)	(9,444)	-	(124,469)
Water treatment plant	(1,089,699)	(58,420)	-	(1,148,119)
Water lines and pumping stations	(3,119,001)	(130,365)	-	(3,249,366)
Wastewater lines, stations and facilities	(7,351,783)	(343,813)	-	(7,695,596)
Vehicles, equipment and other items	<u>(1,260,675)</u>	<u>(70,463)</u>	<u>62,598</u>	<u>(1,268,540)</u>
Total accumulated depreciation	<u>(12,936,183)</u>	<u>(612,505)</u>	<u>62,598</u>	<u>(13,486,090)</u>
Total capital assets, being depreciated, net	<u>14,444,960</u>	<u>(393,528)</u>	<u>2,226</u>	<u>14,049,206</u>
Business-type activities capital assets, net	<u>\$ 18,077,085</u>	<u>\$ (362,962)</u>	<u>\$ 2,226</u>	<u>\$ 17,711,897</u>

# MCKINLEYVILLE COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2008

### 4. Detailed Notes on All Funds (Continued)

#### D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the District as follows:

##### Governmental activities:

Street lighting	\$ 10,917
Parks and recreation	163,820
Total depreciation expense-governmental activities	<u>\$ 174,737</u>

##### Business-type activities:

Water	\$ 220,727
Wastewater	391,778
Total depreciation expense-business type activities	<u>\$ 612,505</u>

#### E. Long-Term Debt

##### Capital Lease Obligation – Governmental Activities

The District, in 2003, entered into a refunding lease agreement with Delta Financing Corporation for the purpose of advance refunding a previous refunding lease entered into in 1998 related to obtaining financing for the acquisition by the District of real property. The 2003 lease had an original principal amount of \$1,956,768 with interest at 3.50 percent per annum. The lease is secured by the related real property and the District has not pledged any specific revenue for its repayment. The District has agreed to make the lease payments from any source of legally available revenues. Future debt service on the lease is as follows:

Fiscal Year Ending June 30	Totals
2009	\$ 251,465
2010	251,465
2011	167,824
2012	<u>167,824</u>
Total minimum lease payments	838,578
Less amount representing interest	<u>(50,518)</u>
Present value net minimum lease payments	<u>\$ 788,060</u>

##### Davis Grunsky Act Loan – Water Enterprise

The District in 1971 entered into a loan agreement with the State of California for a construction loan to finance improvements to the District's water system. The original loan amount was not to exceed \$3,673,000 and was to bear interest at 2.5 percent per annum. Under the arrangement, the District was permitted to defer payment of interest on the loan for the first 10 years with such interest to be repaid over the remaining 40 year term of the loan. The District was required to establish a reserve fund in an amount specified by the State. The District as an entity has pledged to make the loan principal and interest repayments; and it has not pledged any specific revenue for repayment. The District is obligated to levy taxes or assessments for the loan repayments should it not have sufficient resources available to make the scheduled payments. Future debt service on the loan is:

## **REQUIRED SUPPLEMENTARY INFORMATION**



**Required Supplementary Information**  
**McKinleyville Community Services District**  
**Budgetary Comparison Schedule - General Fund**  
**For the Fiscal Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Fund Balance, July 1</b>	\$ 698,361	\$ 708,022	\$ 708,022	\$ -
Resources (inflows):				
Property taxes	347,820	347,820	508,445	160,625
Assessments Measure B	198,716	198,716	194,044	(4,672)
Intergovernmental	63,000	63,000	67,982	4,982
Interest	16,000	16,000	34,943	18,943
Chages for services	457,028	457,028	444,876	(12,152)
Miscellaneous	5,000	5,000	3,339	(1,661)
Transfers in	-	-	65,910	65,910
Amounts available for charges to appropriations	1,785,925	1,795,586	2,027,561	231,975
<b>Charges to appropriations:</b>				
<b>General government:</b>				
Recreation and cultural services	740,532	740,532	742,483	(1,951)
<b>Debt service</b>				
Principal	186,715	186,715	245,032	(58,317)
Interest	24,284	24,284	31,870	(7,586)
<b>Capital outlay</b>	116,000	116,000	54,115	61,885
Total charges to appropriations	1,067,531	1,067,531	1,073,500	(5,969)
Fund Balance, June 30	\$ 718,394	\$ 728,055	\$ 954,061	\$ 226,006

Required Supplementary Information  
McKinleyville Community Services District  
Budgetary Comparison Schedule - General Fund  
Note to RSI  
For the Fiscal Year Ended June 30, 2008

**Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:**

**Sources/inflows resources:**

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 2,027,561
Differences - budget to GAAP:	
Interfund transfres in are a budgetary financial inflow but are not revenues for financial reporting purposes	(65,910)
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(708,022)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 1,253,629</u></u>

**Uses/outflows of resources:**

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 1,073,500
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>-</u>
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 1,073,500</u></u>

**REPORT ON INTERNAL CONTROL  
AND  
COMPLIANCE AND OTHER MATTERS**



**Terry E. Krieg, CPA**  
Certified Public Accountant

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Board of Directors  
McKinleyville Community Services District  
McKinleyville, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McKinleyville Community Services District, California as of and for the year ended June 30, 2008, which collectively comprise the McKinleyville Community Services District, California's basic financial statements and have issued my report thereon dated December 10, 2008, which report was unqualified. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the McKinleyville Community Services District, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McKinleyville Community Services District, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the McKinleyville Community Services District, California's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

Compliance and Other Matters

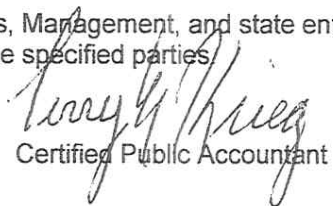
As part of obtaining reasonable assurance about whether the McKinleyville Community Services District, California's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying schedule of findings and responses as item 2008-1

The District's responses to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the District's responses and, accordingly, I express no opinion on it.

This report is intended solely for the information of the Board of Directors, Management, and state entities, and is not intended to and should not be used by anyone other than these specified parties.

December 10, 2008

  
Certified Public Accountant

**McKinleyville Community Services District**  
**Schedule of Findings and Responses**  
**Fiscal Year Ended June 30, 2008**

**Finding 2008-1 Appropriations Limit and Comparison To Proceeds of Property Taxes**

**Condition:**

The District's adopted fiscal year 2007-2008 Appropriations Limit was set at \$352,000. General Fund property tax revenues subject to the limit were reported as \$508,445 which appears to exceed the limit by about \$156,445.

**Criteria:**

State regulations provide for certain actions to be taken if in fact a unit of local government's proceeds of taxes exceed its adopted appropriation limit.

**Effect:**

The effect of this condition is that the reported fiscal year 2007-2008 property tax revenues were in excess of the District's adopted appropriation limit.

**Cause:**

Unknown.

**Recommendation:**

I recommend that the District consult with its general counsel and financial management personnel and (1) verify if in fact fiscal year 2007-2008 appropriations limit has been exceeded, (2) review its prior years appropriation limit computations and elective options to determine if the options most favorable to the District were elected, (3) determine if the District should and can retroactively recompute its adopted appropriations limits, (4) and determine what specific actions the District should take if its appropriations limit has been exceeded.

**Views of Responsible Officials**

The District agrees with both the finding and recommendation regarding the Appropriations Limit (Gann Limit) pertaining to the District's General Fund.

On its surface the Appropriations Limit is simply the prohibition of local governments from retaining tax revenues in excess of annual appropriations from one fiscal year to the next, with certain adjustments and allowances. The base year for calculating the Appropriations Limit is fiscal year 1978-79. For each subsequent fiscal year taxes, fees and investment earnings for the General Fund are compared to the related appropriations for those years. Certain appropriations; such as debt service, qualified capital outlays and retirement fund contributions; are exempt from this calculation by statute. Other adjustments are allowed for population growth and changes in the consumer price index. Any deficit from prior years can be carried forward as an offset in determining whether the Appropriations Limit has been exceeded in subsequent years.

District financial management personnel will endeavor to determine if the District has exceeded the General Fund Appropriations Limit. Should it be the case such that the General Fund has exceeded the Appropriations Limit, the District will comply with its statutory obligations mandated by California voter-approved Proposition 4 of 1979 as amended.